

THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

National Intelligence Officers

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27 October 1978

MEMORANDUM FOR: See Distribution

FROM : James R. Lilley
National Intelligence Officer for China

SUBJECT : Draft Warning Report: China

1. Attached is our draft initial warning report based on our discussion of last Thursday. Jim Lilley has asked me to take charge of this endeavor in his absence. Although this report will not be coordinated we welcome your comments, especially if you find what you consider errors of omission or misreflections of our discussion. Please remember that rather than offering judgments as to the likely we are being asked to lean well forward in considering the possible.

2. We will be in touch about next month's meeting: there may be further guidance from the NIO/Warning after he has considered our initial effort. Could I please have any comments either on paper or by phone by 2 November.

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Attachment:
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WARNING REPORT: CHINA

Summary: Intelligence Community specialists are concerned this month with leadership shakeups in China and their possible adverse impact on domestic political stability. In the international realm their concern lies in two general areas. The first is Indo-China where Peking may feel forced to respond to stepped up Vietnamese political and military pressure against China's client state, Kampuchea. The second area of concern involves mounting tension in the Sino-Soviet relationship which could conceivably take the form of military incidents, inadvertent or otherwise, along the frontier. China has been moving energetically on a number of foreign policy fronts provocative to the Soviet Union. Perhaps most noteworthy is Peking's current bargaining for Western European arms. The first deal could be consummated in the next few months.

Leadership Shakeups: Politburo member Wu Te became the highest ranking official to run into trouble since the "gang of four" when he was removed as mayor of Peking despite the solid support of party chairman Hua Kuo-feng. Leaders of three of China's provinces have also lost their jobs recently. These removals represent an acceleration in the pact at which Teng Hsiao-ping is moving against officials who survived the Cultural Revolution and who therefore are not necessarily loyal to him. The heightened activity increases tensions between Hua, who has been trying to protect these officials, and Teng. We believe Teng is in a strong position but cannot rule out the possibility of some, perhaps desperate, counter action on the part of Teng's adversaries to limit his power.

Indo-China: China is concerned about the ability of its client state, Kampuchea, to withstand mounting Vietnam military and political pressure and in this regard, may face some difficult decisions in the next several months. These are clear signs that Vietnamese military operations in Cambodia will be stepped up during the next month or so. Hanoi also is continuing to publicize and foster activities of Khmer "resistance forces" operating on Kampuchean soil. We have no evidence of a Chinese military buildup along the Vietnamese frontier and Peking is

disclaiming any intent to intervene militarily. Nevertheless, should direct Vietnamese military pressure or subversion threaten the survival of the regime in Phnom Penh or promise to lead to the installation of a pro-Vietnam government there, the chances of more direct Chinese intervention in Kampuchea or some form of Chinese military pressure directed against Vietnam increase.

The Sino-Soviet Context: Commentary by Soviet officials as well as Soviet media organs indicate a growing concern in Moscow over the relative success of Peking's more aggressive foreign policies. Moscow clearly was angered by Chairman Hua's recent Baltan trip. Soviet efforts to dissuade Japan from signing the PFT ended in failure and it appears that Soviet high-level warnings to the French against selling military technology to Peking will also be fruitless. In short, our specialists believe that the level of Soviet frustration and concern vis-a-vis China is at least as high as at anytime in the past several years. The time could be approaching when Moscow will feel the need to increase pressure on the Chinese themselves to slow down their "anti-Soviet" activities. Given the continuing tensions along the border rivers, and evidence of some increase in Soviet troop strength along the border, we do not rule out the possibility of renewed military clashes, inadvertent or otherwise.

Arms Sales to China: This is the area of Chinese foreign policy currently provocative to Moscow. The Chinese are in the final stages of a negotiation with France for a sale of the Hot Milan anti-tank guided missile. This would be the first arm sales to China by Western Europe but China is also interested in acquiring other Western European military equipment.

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Trade Developments: China's unprecedented innovations in foreign trade policy continues and within the next 90 days we could see the signing of major deals involving multi-billion dollar loans and an even deeper foreign involvement in China's industrial development.